

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 7130

BILL NUMBER: HB 1195

DATE PREPARED: Jan 29, 2002

BILL AMENDED: Jan 28, 2002

SUBJECT: Tax and Budget Matters.

FISCAL ANALYST: Bob Sigalow

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FUNDS AFFECTED: X

X

**GENERAL
DEDICATED
FEDERAL**

IMPACT: State & Local

Summary of Legislation: (Amended) This bill establishes the application filing period for certain property tax deductions and the homestead credit with respect to certain mobile homes and manufactured homes. It permits assessing officials to receive a per diem and a mileage allowance for attending training sessions before taking office.

The bill provides that reckless failure of an assessing official to assess exempt privately owned property is a Class A misdemeanor. It eliminates certain tax exemptions for income and property of an otherwise exempt organization that is earned or used in a trade or business that is not directly related to the purposes for which the organization is exempt. The bill repeals a provision concerning taxation of property used in a trade or business. The bill also makes conforming amendments to a statute providing a property tax exemption for the property of various charitable organizations.

This bill permits the Board of Trustees of the South Bend Community Schools to adopt a resolution returning to a calendar year budget cycle. It provides that the resolution may be rescinded. The bill also updates population parameters to reflect changes in the 2000 decennial census.

Effective Date: Upon passage; January 1, 2002 (retroactive); July 1, 2002; January 1, 2003.

Explanation of State Expenditures: *Tax Exempt Property:* Under this provision, the Department of Local Government Finance (State Tax Board) would be required to promulgate rules regarding the apportionment of a building's tax exemption for buildings that are used for both exempt and non-exempt purposes. The Department of State Revenue will also incur additional expenses to address the provisions of this bill.

South Bend Schools: South Bend Community School Corporation (SBCS) became the fifth school with a budget based on the school year. The General Assembly established a pilot program and was scheduled to move all schools to a school year budget for the 2000-01 school year. SEA 508 - 2000 repealed the

requirement of a school year budget, but allowed four of the pilot schools to retain the school year budgeting process. HEA 1096 -2001 changed SBCS's budget year from a calendar year to a school year. The State Board of Tax Commissioners might need to meet with the South Bend Community School Corporation to assist the school in changing from a school year budget back to the calendar year budget. The Tax Board would probably experience no additional expense associated with the change.

Explanation of State Revenues: Tax Exempt Status of Nonprofit Entities: The bill eliminates Gross Income Tax, certain Sales Tax, Adjusted Gross Income Tax, Supplemental Net Income Tax, and Financial Institutions Tax exemptions for income of an otherwise exempt organization that is earned or used in a trade or business that is not directly related to the purposes for which the organization is exempt. These provisions will have an indeterminable impact on state revenue collections.

Penalty for Failure to Assess Property: If additional court cases occur and fines are collected, revenue to both the Common School Fund and the state General Fund would increase. The maximum fine for a Class A misdemeanor is \$5,000. Criminal fines are deposited in the Common School Fund. If the case is filed in a circuit, superior, or county court, 70% of the \$120 court fee that is assessed and collected when a guilty verdict is entered would be deposited in the state General Fund. If the case is filed in a city or town court, 55% of the fee would be deposited in the state General Fund.

Explanation of Local Expenditures: South Bend Schools: South Bend Community School Corporation may have some small expenses associated with changing from a school year to a calendar year budget.

Assessor Training: Under current law, the DLGF must hold training sessions for new assessing officials, assessors, and members of county property tax assessment boards of appeals. New officials are entitled to receive a per diem payment and mileage allowance from the county when they attend a training session. This bill would allow the DLGF to approve a per diem and the county to approve a mileage allowance for a person who has been elected to an assessing office but has not yet taken office. Both the per diem and mileage allowance would be paid by the county. This provision would allow an official-elect to get paid for attending a training session. The fiscal impact would be minimal.

Penalty for Failure to Assess Property: A Class A misdemeanor is punishable by up to one year in jail. The average daily cost to incarcerate a prisoner in a county jail is approximately \$44.

Explanation of Local Revenues: Tax Exempt Property: Under current law, property that is predominantly, but not totally, used or occupied for an exempt purpose by a religious organization or non-profit school is 100% exempt. Under this provision, the property tax exemption would be apportioned on the basis of exempt use versus total use. This apportionment is currently applied to exempt property that is not owned by a religious organization or non-profit school.

Also under current law, the predominant (more than 50%) use of property must be *substantially* related to stated exempt purposes to obtain any amount of exemption. The bill would require that the predominant use be *directly* related to qualify for an exemption.

The property tax provisions in this bill could reduce the number and value of property tax exemptions. A reduction of exemptions would increase the assessed value tax base and would result in lower property tax rates. The amount of increased valuation from reduced exemptions is unknown.

Mobile Home Property Tax Deductions: Under HEA 1001 (2001), mobile home owners may receive most

of the property tax deductions available to real property homeowners. Real property is assessed on March 1st with taxes payable in the following year. However, mobile homes are assessed on January 15th with taxes paid in the same year. This bill would adjust the deduction filing dates for mobile home owners so that they better fit the mobile home assessment cycle and to ensure that mobile home owners receive the deductions beginning in CY 2002.

Penalty for Failure to Assess Property: This bill would make it a class A misdemeanor for a local assessor to recklessly fail to assess all property, including exempt property, as is required by current statute. Property owned by the federal, state, and local governments would continue to be non-assessable.

If additional court actions occur and a guilty verdict is entered, local governments would receive revenue from the following sources: (1) The county general fund would receive 27% of the \$120 court fee that is assessed in a court of record. Cities and towns maintaining a law enforcement agency that prosecutes at least 50% of its ordinance violations in a court of record may receive 3% of court fees. If the case is filed in a city or town court, 20% of the court fee would be deposited in the county general fund and 25% would be deposited in the city or town general fund. (2) A \$3 fee would be assessed and, if collected, would be deposited into the county law enforcement continuing education fund. (3) A \$2 jury fee is assessed and, if collected, would be deposited into the county user fee fund to supplement the compensation of jury members.

State Agencies Affected: Department of State Revenue; Department of Local Government Finance (State Tax Board).

Local Agencies Affected: Counties; Assessors; Auditors; South Bend Community School Corporation; Trial courts; local law enforcement agencies.

Information Sources: